2000 Annual Report

Capturing the Wave of Opportunity

CANADIAN SUPERIOR
ENERGY INC.

Corporate Profile

Canadian Superior Energy Inc. is a Calgary–based energy company engaged in the exploration and production of oil and natural gas in Canada. The Company plans to continue increasing its reserves and production base in Canada through exploration and strategic acquisitions. In Atlantic Canada, the Company's primary area of focus is its 100% owned exploration blocks on the Scotian Shelf, offshore Nova Scotia. In Western Canada, the Company is currently focusing on low cost, oil and gas prospects in Alberta, Saskatchewan and British Columbia.

The common shares of Canadian Superior trade on The Canadian Venture Exchange under the symbol 'SNG'. As at March 31, 2001, the Company had 40.0 million common shares issued and outstanding.

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held on June 19, 2001 at 10:30 am, at The Petroleum Club, Calgary, Alberta. All shareholders are encouraged to attend. Those unable to do so are requested to sign and return the proxy form mailed with this Report.

Abbreviations

mcf .... thousand cubic feet
mbbls .... thousands of barrels
mmcf .... million cubic feet
mcfe .... thousand cubic feet equivalent (1 bbl = 10 mcf)
mmcfe .... million cubic feet equivalent
bbl .... barrel
bcf .... billion cubic feet
NGLs .... natural gas liquids
tcf .... trillion cubic feet

2000 Highlights

Financial	2000	1999	Change
Gross Production Revenue	$ 4,869,420	$ 2,660,697	83%
Cash Flow from Operations	$ 2,215,154	$ 905,777	145%
Per share	$ 0.09	$ 0.04	
Income from Operations	$ 1,599,364	$ 301,156	431%
Net Income (loss)	$ 1,181,515	$ (763,038)	
Per share	$ 0.05	$ (0.03)	
Capital Expenditures	$ 7,018,440	$ 2,149,961	226%
Working Capital	$ 8,897,650	$ 1,548,884	475%
Bank Debt	$ Nil	$ Nil	
Shares Outstanding at Year-end	35,832,834	23,031,591	
Operating			
Average Production			
Natural gas (mcf/d)	2,906	3,267	
Oil & NGL's (bbls/d)	9.2	0.8	
Natural gas equivalent (mcfe/d)	2,988	3,275	
Average Selling Price			
Oil ($/bbl)	$ 46.86	$ 19.54	
Natural gas ($/mcf)	$ 4.40	$ 2.13	
Reserves (net)			
Proven			
Natural gas (mmcf)	21,311	19,339	
Oil & NGL's (mbbls)	70	56	
Millions of cubic feet equivalent	22,011	19,889	
Proven and Risked Probable			
Natural gas (mmcf)	23,202	22,151	
Oil & NGL's (mbbls)	291	32	
Millions of cubic feet equivalent	26,102	22,471	
Undeveloped Land (acres)			
Gross	191,288	108,108	
Net	143,835	47,525	
Wells Drilled			
Gross	3	1	
Net	2.1	1	

Message to Shareholders

I would like to thank all shareholders for their support during the past year. Our first year of independent operations has been very successful. We have achieved substantial growth, implemented strategic changes and aggressively identified, examined and successfully pursued a number of exciting opportunities. Our priority during 2000 was to establish a solid foundation for a successful company. Key to achieving this was to ensure that we established a firm, focused operation supported by highly qualified professionals and financial resources. I believe we are now equipped to achieve our objective of building an exceptional exploration and production company that delivers substantial sustained growth.

CORPORATE ACCOMPLISHMENTS

- Assembled an experienced team of seasoned professionals with extensive technical and financial expertise.
- Acquired two significant world-class exploration licenses covering approximately 111,000 acres on the Scotian Shelf, Offshore Nova Scotia.
- Achieved significant growth with revenue of $4.87 million, cash flow of $2.21 million and net income of $1.18 million as a result of increased product pricing and implementation of a new marketing strategy.
- Increased the Company's net proven reserve base by 11% to 22.0 bcfe from 19.9 bcfe and the net proven and one-half probable reserve base by 16% to 26.1 bcfe.
- Increased the estimated net asset value of the Company to $2.38 per share on a fully diluted basis using a 10% discount rate.
- Entered into a Farmout Rights Agreement, expiring December 31, 2001, which provides Canadian Superior with a right of first refusal on farmins on approximately 500,000 net acres of undeveloped acreage held by Canadian 88 Energy Corp. in Western Canada.
- Undertook new initiatives to expand the Company's inventory of high impact Frontier and Foothills exploration plays. More specifically, this included rights to over 340,000 kilometres of seismic data and related information, representing a significant foundation for Canadian Superior's ongoing exploration strategy and near-term high impact growth.
- Arranged equity financings totalling $17.3 million during the fourth quarter of 2000 and established a credit facility.
- Changed our Corporate name from Prize Energy Inc. to Canadian Superior Energy Inc. to reflect the new independent direction of our Company.

- Consolidated our common shares on a one for two basis effective August 28, 2000.
- Adopted a Shareholders' Rights Plan in January 2001 to protect the rights of all shareholders in the event of any take-over offer for the Company.

THE EMERGING GROWTH COMPANY

Western Canada

On March 24, 2000, Canadian Superior entered into a Farmout Rights Agreement with Canadian 88 Energy Corp. on a right of first refusal basis, covering approximately 500,000 net acres, until December 31, 2001. This arrangement offers significant opportunity for the Company to expand upon its inventory of internally generated prospects and for exploration growth through the drill bit.

To support our initiative of expanding our inventory of high impact plays, we acquired rights to over 280,000 kilometres of seismic data and related information. This has established a strong foundation supporting Canadian Superior's Western Canada activities.

West-Central and Southern Alberta

In West-Central Alberta, we participated in the drilling of a Mississippian well in the Innisfail area (25% gross working interest to earn 20% net working interest) during the third quarter. This well was successfully completed and is currently expected to be on production by mid-year. Ongoing exploration also included the drilling of a successful well at Okotoks in Southern Alberta.

North Central Alberta

This area represents a new core exploration area targeting shallow gas. With land holdings of 20,480 gross (17,760 net) acres, the Company's prospects include Bison Lake (100% working interest sections) and Giroux Lake. Current production is at 1.5–2.0 mmcf/d (net) and additional drilling plans for later in 2001 are underway for identified prospects.

Waterton

Early in 2000, the Waterton project (10% carried working interest) represented approximately 99% of Canadian Superior's proven reserves base. Production from this high impact Foothills area averaged approximately 2.7 mmcfe/d during 2000. As a result of the Company's new focus, this property now represents less than one-half of Canadian Superior's proven reserves base.

Saskatchewan

In Saskatchewan, Canadian Superior's gas production is produced from wells at Frenchman Butte, Whalen, Makwa and the Bronson Lake region. With low development and operating costs, the Company will continue to evaluate additional prospects in this area. We are currently producing approximately 2.5–3.0 mmcf/d from these areas.

Atlantic Canada

Frontier Exploration

The most significant opportunity for Canadian Superior's high impact growth is in the Scotian Shelf Basin. This basin, located offshore Nova Scotia, represents one of the greatest opportunities in North America for oil and gas exploration and development. To date our highly experienced technical team has acquired and interpreted over 60,000 kilometres of new high quality seismic data over the Scotian Shelf. Our seismic data base is one of the largest modern seismic data bases covering the Offshore Nova Scotia region. Based on our analysis of this seismic data, we requested the posting of three blocks. We successfully acquired exploration licenses on two of those three blocks from the Canada–Nova Scotia Offshore Petroleum Board. We now refer to our two blocks (Exploration Licenses 2401 and 2402) as our Marquis Project.

Our world-class Marquis Project is on trend with PanCanadian's recent Panuke discovery which is approximately 15 miles to the southwest of our lands. Our two large exploration blocks are primarily in shallow water depths (50–100 metres) and in close proximity to the newly constructed Sable Island pipeline infrastructure.

Subject to receiving regulatory approval, Canadian Superior plans to commence its drilling program in the fall of 2001. This will include drilling a 4,500 metre deep Abenaki Reef test well. The well location was identified through detailed analysis of seismic data and related information that we acquired, over our 100% owned Marquis Project blocks. We believe that our Atlantic opportunities will provide shareholders with tremendous value and future growth opportunities.

OUTLOOK

Our focus on positioning for rapid growth, targeting natural gas projects, has been successful during the past year. Current strong commodity prices provide us with added momentum to achieve accelerated growth. Given our disciplined approach, strong management team and strength in financial assessment and technical evaluations, we remain enthusiastic and confident in our ability to deliver solid sustainable returns and value to our shareholders.

Respectfully submitted on behalf of Management, Staff and Board of Directors.

Greg Noval
President & C.E.O.
April 26, 2001

Operations Review

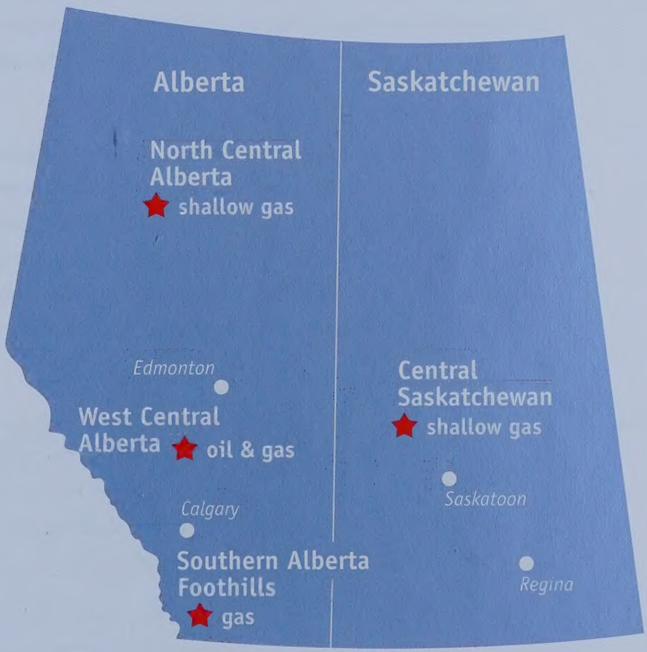
Key Properties

Western Canadian Properties

In Western Canada, the Company has entered into a Farmout Rights Agreement with Canadian 88 Energy Corp. on a right of first refusal basis covering a large undeveloped land base of approximately 500,000 net acres, expiring December 31, 2001.

WEST-CENTRAL ALBERTA

In West-Central Alberta, we participated in the drilling of a Mississippian well in the Innisfail area (25% gross working interest to earn 20% net working interest). This well has recently been completed and production tested and is expected to be tied-in for production by mid-year.



- ***FOCUSED WESTERN CANADIAN OPERATIONS***
- ***GROWING WESTERN CANADIAN CASH FLOW AND PRODUCTION BASE***
- ***EXTENSIVE WESTERN CANADA SEISMIC DATA BASE***

NORTH CENTRAL ALBERTA

This area has rapidly evolved into a new core exploration area targeting Cretaceous shallow gas. The Company's North Central Alberta land holdings total 20,480 gross (17,760 net) acres at Bison and Giroux Lake. Canadian Superior has tied-in three wells to a third-party gathering system for gas production of 1.0 to 1.5 mmcf/d (net). Plans for 2001 include further drilling, recompletions and pipeline tie-ins. Additional production includes our 25% net interest in a new 220 bbls/d non-operated discovery oil well.

WATERTON, ALBERTA

Canadian Superior owns a 10% carried working interest in approximately 9,000 acres of land in the Waterton area where six wells have been drilled, completed and tied-in. Additionally, the Company owns a 10% working interest in over 50,880 undeveloped acres with one well cased and plans for drilling a second well targeting the Mississippian–Devonian zone. Production from this area averaged approximately 2.7 mmcfe/d during 2000. On a go forward basis, Canadian Superior is looking forward to improving the performance of this property as a result of the Canadian 88 sale of its interests in Waterton.

SASKATCHEWAN

In Saskatchewan, Canadian Superior has interests in 5,443 gross (2,846 net) acres with production from its 100% owned gas well at Frenchman Butte (10-21-53-25 W3M). A suspended Canadian Superior well at 4-27-53-25 W3M was recently re-entered with two zones successfully recompleted and tied-in for new incremental combined production of over 1 mmcf/d. At Whalen, plans are underway to recomplete a second gas well at 13-6-57-23 W3M (currently shut-in).

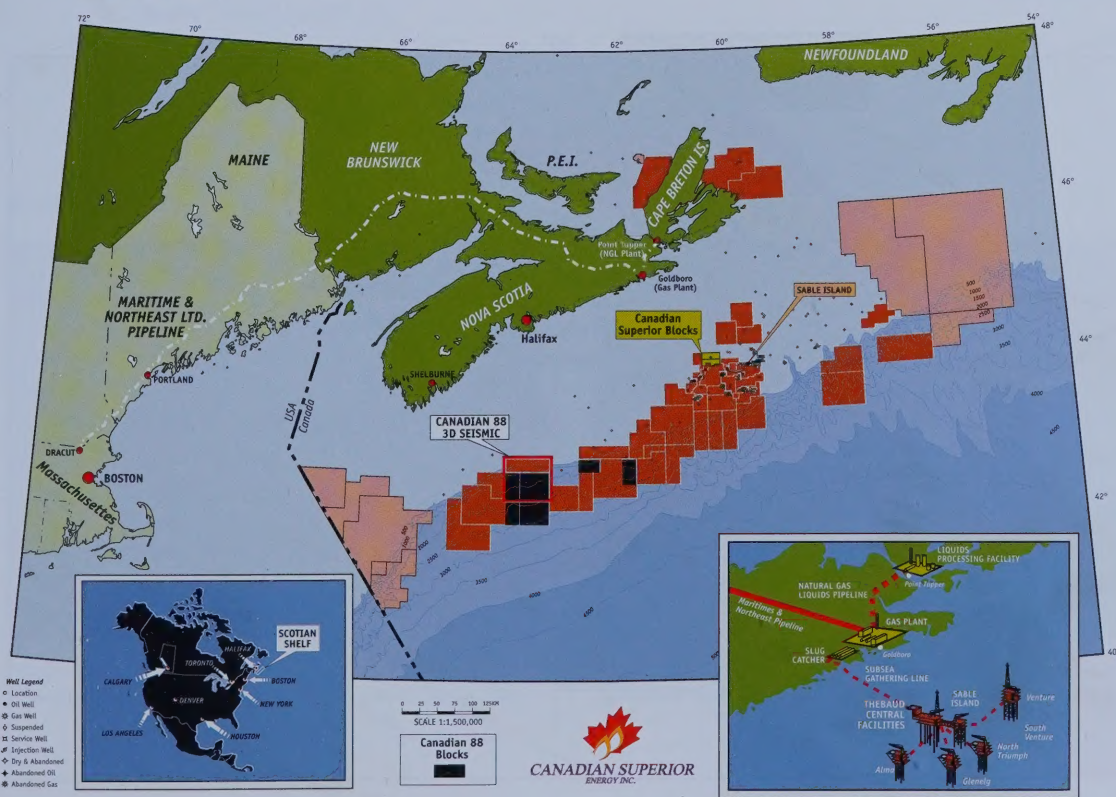
In 2000, we drilled two shallow gas wells: the first in the Makwa area (northern Saskatchewan) with a 100% interest. This well AOF tested at 5.07 mmcf/d and has now been tied-in for production at rates of 1.0–1.5 mmcf/d. The second shallow gas well was drilled in the Bronson Lake region at 11-30-56-25 W3M, targeting multi-zone shallow Cretaceous gas, also with a 100% interest. This well has been completed and tied-in and is currently producing at 0.5 mmcf/d. Canadian Superior expects to pursue further low cost drilling opportunities in Saskatchewan.

Marquis Project, Offshore Nova Scotia

Alongside our successful activities in Western Canada, during the fourth quarter of 2000 Canadian Superior emerged as a significant player in the evolving world-class Scotian Shelf Offshore Nova Scotia natural gas play. This basin represents one of the greatest opportunities in North America for oil and gas exploration and development. The world-class nature of this basin and its reserves have recently been recognized by Goldman Sachs Global Equity Research, Cambridge Energy Research Associates, Ziff Energy Group and several others.

Our Marquis Project Offshore Nova Scotia is arguably one of the most exciting prospects in the East Coast region. The Company's new holdings are located approximately 20 kilometres (12.5 miles) northwest of Sable Island and are directly on trend and analogous to PanCanadian Petroleum Limited's ("PanCanadian's") recent Panuke Abenaki Reef natural gas discovery, approximately 15 miles to the southwest, where several new wells have been recently tested with productive capacity each in excess of 50 mmcf/d.

Scotian Shelf

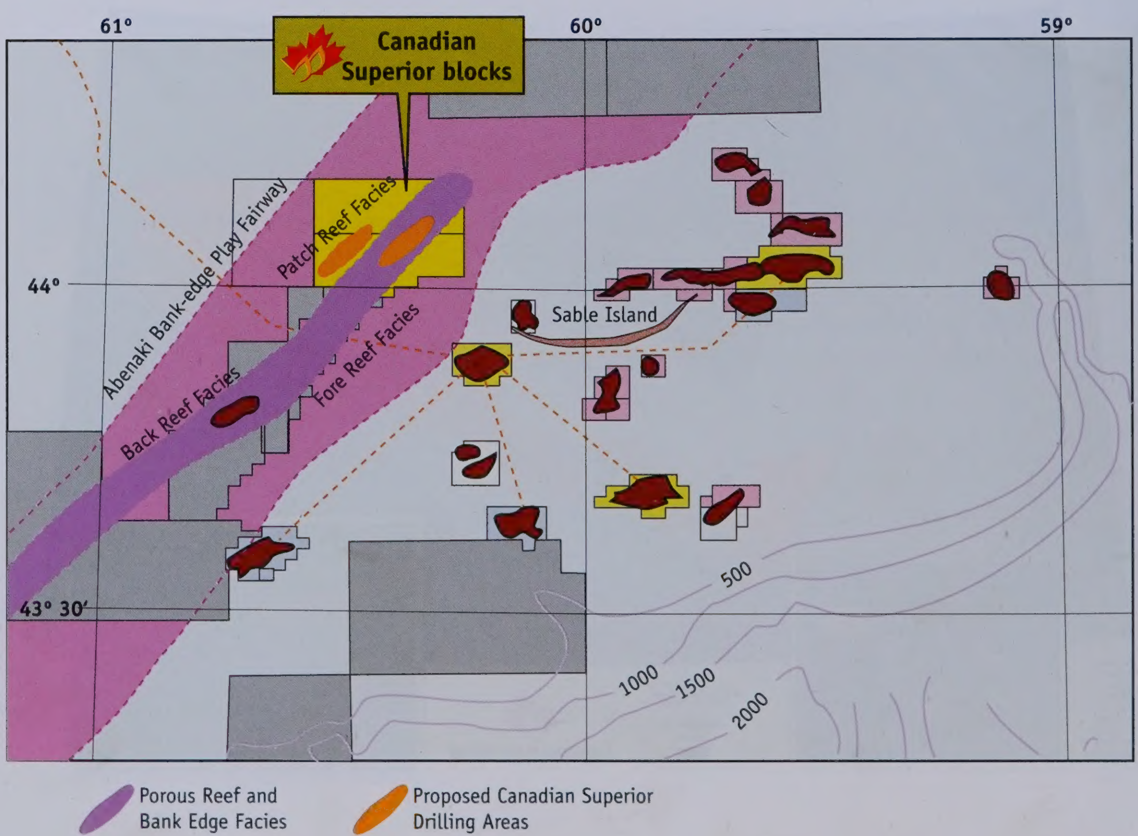


CANADIAN SUPERIOR ENERGY INC.

PanCanadian's discovery is expected to produce in excess of 400 mmcf/d when it is brought on line. Canadian Superior's properties are in shallow water depths (50–100 metres) in close proximity to newly constructed pipeline infrastructure connecting 500 mmcf/d of Sable Island natural gas to vibrant New England natural gas markets. During the past year, Canadian Superior acquired one of the largest modern seismic data bases Offshore Nova Scotia. Extensive analysis of the seismic data has identified a number of exciting world-class prospects underlying Canadian Superior's current acreage, including a major Jurassic Abenaki Reef proposed for drilling in the fall of 2001.

- ***LARGE WORLD-CLASS OFFSHORE NOVA SCOTIA PROSPECTS***
- ***DRILL THE MARQUIS PROJECT AND DELIVER HIGH IMPACT RESULTS FOR SHAREHOLDERS***

Marquis Project



As a newly evolving major gas production region, the Scotian Shelf has a number of unique market advantages:

(i) It is by far the closest source of production to deliver gas to the U.S. Northeast markets (750 miles) compared to either the U.S. Gulf of Mexico (1,250 miles) or Western Canada (2,250 miles);

(ii) Scotian Shelf production offers decreased weather related issues compared to other potential East Coast production;

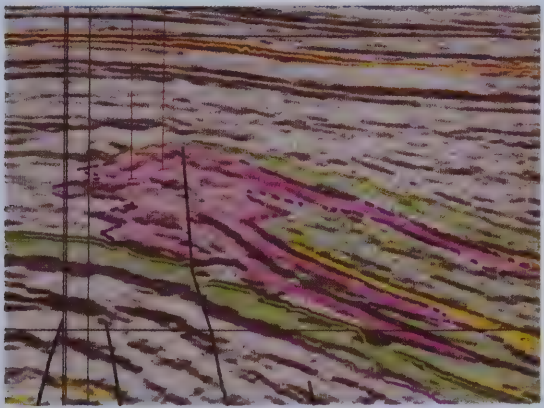
(iii) The primary natural gas pipeline, Maritimes & Northeast Pipeline has a current capacity of transporting 600 mmcf/d in Canada (30 inch pipeline) and the U.S. segment (24 inch pipeline) has capacity for 500 mmcf/d with a potential to expand capacity to carry over 1 bcf/d;

(iv) The Canada–Nova Scotia Offshore Petroleum Board has implemented an attractive royalty regime for energy producers;

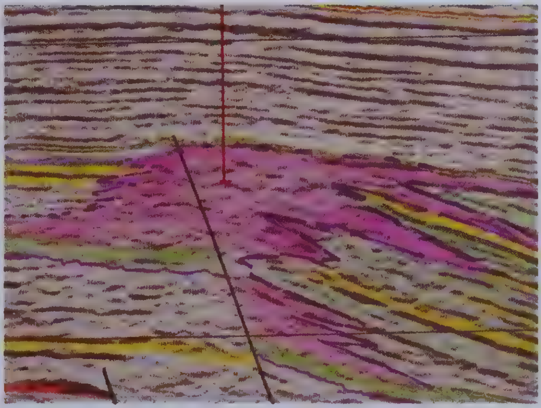
(v) With the large discoveries to-date, Scotian Shelf production could increase from its current 500 mmcf/d to over 1.5 bcf/d by 2005; and

(vi) Industry estimates of natural gas reserves in place in the Scotian Shelf are reported to range upwards of 18 tcf. Ultimate resource potential could be in the order of 50 tcf.

Seismic Data



PanCanadian
"Panuke Reef Discovery"



Canadian Superior
"Marquis Reef Project"

Reserves Summary

2000 Net Reserves (as at January 1, 2001)	Oil (MSTB)	Gas (MMCF)	NGL (MBBLS)
Net Proven Producing	35.0	7,151.0	15.0
Net Proven Non-Producing Developed	–	6,320.0	–
Net Proven Non-Producing Undeveloped	–	7,840.0	20.0
	35.0	21,311.0	35.0
Net Probable (50% Risked)	210.0	1,891.0	11.0
Net Proven plus 50% Probables	245.0	23,202.0	46.0

Value of Reserves (10% discounted cash flow M$)	**2000**	1999	% Change
Proven + 50% Risked Probable	**$ 54,327.0**	$ 25,383.8	114.0%
Proven	**$ 49,632.0**	$ 23,748.1	109.0%

The above-mentioned reserves as at January 1, 2001, have been evaluated by Chapman Petroleum Engineering Ltd. and set out in their report dated March 12, 2001. Based on these reserves, the Company has an estimated Net Asset Value of $2.38 per common share outstanding (fully diluted basis) using a 10% discount rate.

Pricing Assumptions

(Per Chapman Petroleum Engineering Ltd.)

	(Pricing Forecast)				ART Credits[5]	
	WTI[1] ($US/STB)	Price[2] ($Cdn/STB)	AECO Spot Gas[3] ($/MMBTU)	NGL Mix[4] ($/BBL)	Rate (%)	Max. ($M)
Current Year Forecast						
2001	26.25	38.64	7.36	30.56	25.00	500
Future Forecast						
2002	25.00	36.79	5.49	27.81	25.00	500
2003	25.75	37.89	4.69	28.64	25.00	500
2004	26.51	39.03	4.54	29.50	25.00	500
2005	27.30	40.20	4.29	30.39	25.00	500

(1) West Texas Intermediate quality (D2/S2) crude landed in Cushing, Oklahoma.

(2) Equivalent price for Light Sweet Crude (D2/S2) landed in Edmonton, Alberta after exchange of U.S./Cdn. $0.6750 and transportation charges of Cdn./STB $0.25.

(3) Price paid at field delivery point.

(4) Natural Gas Liquids blended mix price assuming typical liquid composition of 40% propane, 30% butane and 30% pentanes plus.

(5) Maximum ARTC rate, 75%; Crown royalty shelter, $2,000,000.

Estimated Net Asset Value

($Thousands, except per share)	2000	1999
Present Value Reserves[1]		
Proven Reserves Discounted at 10%	**$ 49,632**	$ 23,748
Risked (50%) Probable Reserves Discounted at 10%	**4,695**	1,636
	54,327	25,384
Undeveloped Land		
Western Canada	**4,800**	935
Nova Scotia Offshore[2]	**27,500**	–
New Seismic Data[3]	**3,400**	–
Working Capital	**8,898**	1,549
Options (2.1 million @ $0.75)	**1,575**	1,126
	$ 100,500	$ 28,994
Fully Diluted Common Shares Outstanding	**42,127,834**	24,406,558
Net Asset Value per Share[4]	**$ 2.38**	$ 1.19

(1) The reserves values are based upon a new independent engineering report dated March 12, 2001, evaluated as of January 1, 2001.

(2) Based upon an independent evaluation dated March 12, 2001.

(3) Acquired two large seismic data sets (offshore Nova Scotia and Western Canada) for Cdn. $3.4 million.

(4) All share and per share amounts have been restated to reflect the 1:2 share consolidation, which occurred in August 2000.

Undeveloped Lands

(As at December 31, 2000)

Location	Gross Acres	Net Acres
Alberta	76,128	29,998
Saskatchewan	864	864
British Columbia	3,528	2,205
Offshore Nova Scotia	110,768	110,768
TOTAL	191,288	143,835

Revenue

Oil and gas revenues for the year ended December 31, 2000 increased to $4,869,420, up 83% from $2,660,697 in 1999. This increase is attributable primarily to higher commodity prices realized after expiry of low price gas contracts on July 1, 2000. After July 1, 2000 Canadian Superior sold its production into spot markets at prices that averaged $6.72 per mcfe during the last six months of the year, well above the average of $2.35 per mcfe during the first six months of 2000.

Cash Flow and Income

Canadian Superior reported significant increases in cash flow and net income for 2000. Cash flow from operations reached $2,215,154, an increase of 145% from $905,777 a year earlier. Income from operations was $1,599,364, an increase of 431% over 1999 levels of $301,156. Net income was $1,181,515 compared to a loss of $763,038 in 1999. Higher commodity prices were the main contributor to growth in cash flow and income from operations.

Oil and Gas Production

Production was received from nine gross (1.5 net) gas wells in Alberta and one 100% owned well in Saskatchewan for a total of 10 gross (2.5 net) wells. Canadian Superior does have interests in shut-in wells that it considers to be productive wells after some recompletion work. These shut-in gas wells include six gross (3.6 net) wells in Alberta and four gross (3.6 net) wells in Saskatchewan and one gross (.625 net) well in British Columbia.

Royalties

Royalties, net of the Alberta Royalty Tax Credit (ARTC) increased to $397,115, up from $239,923 a year earlier. This increase is attributable to the increased value of production.

Operating Expenses

Production and operating expenses for the year ended December 31, 2000 were $928,813 compared to $1,127,783, a significant decrease of 18%, as the Company shifts away from its high level of dependence on the high cost non-operated Waterton area.

General and Administrative Expenses

General and administrative costs increased to $1,429,033 compared to $489,013 incurred during 1999. These higher costs were associated with building a qualified team of professionals to support the Company's newly independent operations.

Depletion and Amortization

Depletion and amortization expenses remained relatively unchanged in 2000 at $492,196 over 1999 levels of $476,100.

Future Site Restoration

Expenses associated with future site restoration in 2000 were $22,899 compared to $26,722 in 1999.

Income Taxes

Future income taxes for 2000 (calculated at 44.5%) are estimated at $518,544. No income taxes were payable for 1999.

Retained Earnings

In addition to after-tax income of $1,181,515, retained earnings includes an adjustment to stated capital of $893,102 as approved by shareholders at the 2000 Annual Meeting. A further increase in retained earnings of $1,787,834 resulted from the change in accounting policy to adopt the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants.

Capital Expenditures

The Company incurred total capital expenditures of $7,018,440 during 2000 compared to $2,149,961 in 1999. Of the 2000 capital expenditures, $6,519,740 was directed to exploration and development activities, including well equipment as well as the purchase of seismic data libraries, compared to $2,031,512 in 1999. In addition, $498,700 was attributed to acquisitions in 2000, compared to $118,449 in 1999.

Reserves

Although not all of the programs initiated by the Company during 2000 have been tied-in, net proven reserves increased 11.0% to 22.0 bcfe from 19.9 bcfe a year earlier. Net proven plus one-half probable reserves also increased by 16.0% to 26.1 bcfe over 1999 levels. Net proved producing reserves were reduced primarily due to adjustments in the reserves estimates at Waterton. During the Company's early start-up in 2000, the Waterton project (10% working interest) represented 99% of Canadian Superior's proven reserves base. Currently, however, these properties now represent less than one-half of both our total proven and our probable reserves base. We have reduced our dependence in this area to avoid the high costs associated with non-operated properties.

Liquidity

During the fourth quarter, the Company arranged equity financings aggregating to $17.3 million. Of this amount, $12.74 million was funded in the fourth quarter 2000 and the remaining $4.56 million was funded during the first quarter of 2001. In addition, during the fourth quarter of 2000, a credit facility was established for $6.5 million. Combined with expected 2001 cash flow, the Company has adequate funds to complete its anticipated 2001 Western Canadian capital expenditure program of $20.0 million. East Coast expenditure requirements will be funded by farm-outs and available cash and credit lines.

Business Risks

Companies engaged in the oil and gas industry are exposed to a number of business risks, which can be described as operational, and financial risks, many of which are outside Canadian Superior's control. More specifically, these include risks of producing oil and gas in commercial quantities, marketing the production, commodity price fluctuation risks and environmental risks. In order to mitigate these risks, the Company has an experienced base of qualified personnel, both technical and financial and maintains an insurance program that is consistent with industry standard.

- ***STRONG BALANCE SHEET***
- ***EXPERIENCED MANAGEMENT TEAM***

Management's Report to the Shareholders

Management is responsible for the preparation of the financial statements and the consistent preparation of all other financial information in this annual report. The financial statements have been prepared in accordance with generally accepted accounting principles, and the other financial information appearing throughout the annual report is presented on a basis consistent with the financial statements.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that relevant and reliable information is produced in a timely manner.

External auditors, appointed by the shareholders, have examined the consolidated financial statements. Their report follows. The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. The Board of Directors has approved the financial statements on the recommendation of the Audit Committee.

Greg S. Noval
President

Robert Pilling
Director

Auditors' Report to the Shareholders

We have audited the balance sheet of Canadian Superior Energy Inc. as at December 31, 2000 and 1999 and the statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

CALGARY, Alberta

February 28, 2001

Brown Smith Owen

CHARTERED ACCOUNTANTS

Balance Sheet

December 31	2000	1999
Assets		
Current assets		
Cash and short-term investments (Note 8)	$ 11,574,516	1,606,329
Accounts receivable	3,683,553	1,836,806
Prepaid expenses	126,632	50,635
	15,384,701	3,493,770
Investments, at cost	229,620	229,620
Capital assets (Note 2)	15,620,681	8,194,438
	$ 31,235,002	11,917,828
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 6,487,051	1,944,886
Deferred future site restoration costs	53,159	30,259
Future income taxes (Note 5)	4,343,987	–
	10,884,197	1,975,145
Shareholders' Equity		
Share capital (Note 3)	17,343,349	10,797,678
Retained earnings (deficit)	3,007,456	(854,995)
	20,350,805	9,942,683
Contingencies and commitments (Note 8)		
Subsequent events (Note 9)		
	$ 31,235,002	11,917,828

Approved by the Board

Greg S. Noval
Director

Robert Pilling
Director

Statement of Income

Years ended December 31	2000	1999
Revenue		
Oil and gas	$ 4,869,480	[illegible]
Royalties, net of royalty credit	(397,119)	[illegible]
	4,472,361	[illegible]
Expenses		
General and administrative	1,028,033	[illegible]
Production and operating	908,819	[illegible]
Depletion and amortization	792,196	[illegible]
Future site restoration	22,699	[illegible]
	2,872,961	[illegible]
Income from operations	1,599,364	[illegible]
Other income (loss)		
Interest	100,635	[illegible]
Write-down of petroleum and natural gas properties (Note 2)	–	[illegible]
	100,635	[illegible]
Income (loss) before income taxes	1,700,059	[illegible]
Future income taxes (Note 5)	510,544	
Net income (loss)	$ 1,189,515	[illegible]
Net income (loss) per share	$ 0.05	[illegible]

Statement of Retained Earnings

Deficit at beginning of year	$ (854,995)	[illegible]
Reduction of stated capital (Note 3)	833,102	
Adjustment for change in accounting policy (Note 6)	1,787,834	–
Net income (loss)	1,189,515	[illegible]
Retained earnings (deficit) at end of year	$ 3,017,456	[illegible]

Statement of Cash Flows

Years ended December 31	2000	1999
Cash flows from operating activities		
Net income (loss)	$ 1,181,515	(763,038)
Items not involving cash for operations		
Depletion and amortization	492,196	476,100
Future site restoration	22,899	26,722
Future income taxes	518,544	–
Write-down of oil and gas properties	–	1,165,993
Cash flow from operations	2,215,154	905,777
Net change in non-cash working capital		
Accounts receivable	(1,846,747)	(1,066,672)
Prepaid expenses	(75,997)	(43,135)
Accounts payable and accrued liabilities	4,542,167	852,466
	4,834,577	648,436
Cash flows from investing activities		
Purchase of capital assets	(7,018,440)	(2,149,961)
Purchase of investments		(229,620)
	(7,018,440)	(2,379,581)
Cash flows from financing activities		
Issue of shares	12,725,085	–
Share issue costs	(573,035)	–
	12,152,050	
Net increase (decrease) in cash	9,968,187	(1,731,145)
Cash at beginning of year	1,606,329	3,337,474
Cash at end of year	$ 11,574,516	1,606,329
Cash flow from operations per share	$ 0.09	0.04

YEARS ENDED DECEMBER 31, 2000 AND 1999

Note 1 – Accounting Policies

a) Depletion and Amortization – The Corporation operates in Canadian and U.S. cost centres and follows the full-cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells, costs of production equipment and overhead charges related to acquisition, exploration and development activities.

The costs are amortized using the unit-of-production method based upon the estimated proved oil and gas reserves as determined by the Corporation's petroleum engineers. Oil and natural gas reserves and production are converted into equivalent units based upon relative energy content.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

The Corporation applies a ceiling test to capitalized oil and gas property costs to ensure that such costs do no exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the cost of unevaluated properties less management's estimate of impairment. The test also provides for estimated future administrative overhead, financing costs, future site restoration costs and income taxes.

Gains or losses resulting from dispositions of oil and gas properties are charged or credited to the cost pools. Gains or losses on the disposal of significant properties are recognized at the time of disposition.

Amortization of other equipment is provided on a diminishing balance basis at rates ranging from 20% to 100% per annum. Gains and losses from disposals are included in income.

b) Site Restoration Costs – Estimated future site restoration costs, net of expected recoveries, are provided based on the estimated production life of the properties. Actual expenditures will be charged to the accumulated provision when incurred.

c) Joint Ventures – The Corporation's exploration and development activities related to oil and gas are conducted jointly with others. The accounts reflect only the Corporation's proportionate interest in such activities.

d) Income Taxes – Income taxes are calculated using the liability method of tax accounting. Temporary differences between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

e) Measurement Uncertainty – The preparation of financial statements in conformity with generally accepted accounting principles requires the Corporation's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Capital Assets

	2000			1999
	Cost	**Accumulated Depletion and Amortization**	Net	Net
Oil and gas properties	**$ 18,284,272**	**2,767,906**	15,516,366	8,175,727
Other equipment	**202,191**	**97,876**	104,315	18,711
	$ 18,486,463	**2,865,782**	15,620,681	8,194,438

At December 31, 2000, the Corporation has excluded $5,469,629 of oil and gas properties relating to unproved properties from costs subject to depletion. General and administrative expenses totalling $841,270 that were directly related to exploration and development activities have been capitalized for the year ended December 31, 2000 (1999 – nil).

Under the full cost method of accounting, application of the ceiling test must be performed on a country-by-country basis. At December 31, 2000, the Corporation had a surplus on the ceiling test in its Canadian cost centre. During the year ended December 31, 2000, costs incurred with respect to the United States cost centre totalling $88,485 were charged to depletion and amortization. During the year ended December 31, 1999, the United States cost centre had a deficit resulting in a write-down totaling $1,165,993 which is included in accumulated depletion above.

The prices used in the ceiling test computation were as follows:

Natural gas (per thousand cubic feet)	$ 7.39
NGL's (per barrel)	$ 30.56

Note 3 – Share Capital

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares

Issued:

	2000		1999	
	Shares	**Amount**	Shares	Amount
Common shares				
Balance at beginning of year	**23,031,591**	**$ 10,797,678**	23,031,591	$ 10,797,678
Issued during the year:				
Flow-through share offerings net of income tax benefits renounced	**10,956,334**	**6,196,390**	–	–
Private placement	**1,594,909**	**1,435,418**	–	–
Exercise of options	**250,000**	**125,000**	–	–
Reduction of stated capital	–	**(893,102)**	–	–
Share issue costs net of income tax benefits	–	**(318,035)**	–	–
Balance at end of year	**35,832,834**	**$ 17,343,349**	23,031,591	$ 10,797,678

a) Share consolidation – Pursuant to a special resolution of the shareholders dated June 30, 2000, the corporation, on August 28, 2000 consolidated all of its issued and outstanding common shares on a 1 for 2 basis. All share and per share amounts in the accompanying financial statements retroactively reflect this share consolidation.

b) On June 30, 2000, a special resolution was passed by shareholders to reduce the stated capital amount for common shares by $893,102, which amount was applied to the deficit.

c) The Corporation has granted share options to current directors, officers and employees of the Corporation. As at December 31, 2000, options to purchase 2,175,000 (December 31, 1999 – 1,375,000) common shares were outstanding. These options are exercisable at amounts between $0.50 per share and $0.82 per share and expire on various dates between August 29, 2001 and November 25, 2005.

	Number of Common Shares Under Option	Weighted Average Exercise Price
Options outstanding at beginning of year	1,375,000	$ 0.82
Options forfeited during the year	(225,000)	0.82
Options exercised during the year	(250,000)	0.50
Options granted during the year	1,275,000	0.80
Options outstanding at end of year	2,175,000	$ 0.75

d) During September, 2000, the Corporation entered into a flow-through share agreement to issue 1,041,667 common shares for cash consideration of $1,250,000 and to renounce $1,250,000 of qualified expenditures. During the year ended December 31, 2000, 1,041,667 shares were issued pursuant to this agreement.

e) During the year ended December 31, 2000, the Corporation entered into flow-through share agreements to issue 12,509,667 common shares for cash consideration of $12,509,667 and to renounce $12,509,667 of qualified expenditures. During the year ended December 31, 2000, 9,914,667 shares were issued pursuant to these agreements.

f) Per share amounts – Per share amounts were calculated using the weighted average number of common shares outstanding of 24,142,551 for 2000 and 23,031,591 for 1999. Diluted per share amounts have not been presented since these amounts do not differ significantly from per share figures reported.

Note 4 – Related Party Transactions

a) On January 14, 2000, the Corporation's major shareholder, Canadian 88 Energy Corp. (Canadian 88) distributed its holdings of Canadian Superior Energy Inc.'s common shares to Canadian 88's shareholders of record as of that date. On March 17, 2000, the Corporation entered into an agreement with Canadian 88 that provided for separation of the administration and management of the Corporation from Canadian 88. Specifically, the Corporation and Canadian 88 agreed that no further general management and administrative services would be provided by Canadian 88 after June 30, 2000; that after June 30, 2000 the Corporation had the right to market its share of natural gas production from the Waterton Prospect area as it sees fit and all such marketing will be at its own risk and expense; that the Corporation will continue to have the right to participate in development of the Waterton Prospect area; and that the two parties would enter into an agreement called the Prize Farmout Rights Agreement with a term ending December 31, 2001 allowing the Corporation a right of first refusal to participate in the development of Canadian 88's undeveloped lands held at March 17, 2000.

b) During the year ended December 31, 2000, the Corporation paid $380,079 (1999 – nil) for equipment rentals at normal commercial terms to a company controlled by an officer and director of the Corporation.

Note 5 – Income Taxes

The net future income tax liability is comprised of:

	2000	1999
Future Tax Liabilities		
Capital assets in excess of tax values	$ 4,571,643	–
Future Tax Assets		
Share issue costs	(204,000)	–
Future removal and site restoration	(23,656)	–
	(227,656)	–
Net future income tax liability	$ 4,343,987	–

The following table reconciles income taxes calculated at the Canadian statutory rate of 44.5% with actual income taxes:

	2000	1999
Income (loss) before income taxes	$ 1,700,059	(763,038)
Combined federal and provincial income tax rate	44.5%	45.0%
Computed income tax provision	$ 756,526	(343,367)
Increase (decrease) resulting from:		
Non-deductible Crown royalties	134,646	25,454
Other	3,434	–
Resource allowance	(343,345)	(113,560)
Alberta Royalty Tax Credit	(32,717)	(17,148)
Depletion on assets with no tax base	–	76,755
Write-down of oil and gas properties	–	524,697
Excess of resource deductions over depletion taken	–	(152,831)
	$ 518,544	–

Note 6 – Change in Accounting Policy

Effective January 1, 2000, the Corporation adopted, retroactively without restating prior years, the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants (CICA). The Corporation adopted the recommendations by recording additional capital assets of $900,000, an increase in retained earnings of $1,787,834 and a future income tax asset of $887,834.

Note 7 – Risk Management

The carrying values of financial assets and liabilities approximate their fair value due to their demand nature or relatively short periods to maturity.

A substantial portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Purchasers of the Corporation's oil, gas and natural gas liquids are subject to an internal credit review to minimize the risk of non-payment.

At December 31, 2000, the Corporation had a short-term bank line of credit aggregating $6,500,000 (1999 – nil) of which none had been drawn down. The line of credit is a revolving operating facility that bears interest at prime plus 0.375% on the first $3,250,000 drawn and prime plus 0.75% on any remaining balance.

The Corporation is exposed to foreign currency fluctuations as oil and gas prices received are referenced to U.S. dollar denominated prices.

Note 8 – Contingencies and Commitments

a) The Corporation has acquired two exploration licenses from the Canada–Nova Scotia Offshore Petroleum Board. These licenses are for a period of nine years in total, subject to certain requirements being met during the first five years. As a condition of the licenses, the Corporation has posted security in the amount of 25% of its work expenditure bid of $27,700,800 or $6,925,200. The deposit is refundable to the extent of approved allowable expenditures.

   The Corporation has issued demand promissory notes for the above mentioned $6,925,200 to the Receiver General for Canada. These notes are secured by a Letter of Guarantee issued by the Royal Bank of Canada, which in turn is secured by an Assignment of Deposit Certificate related to a Term Deposit held by the Corporation at Alberta Treasury Branches. Under the terms of the assignment, the Corporation is permitted to use their line of credit in place of the term deposit.

b) The Corporation has entered into an agreement to lease premises requiring future minimum payments totaling $1,580,582. Minimum annual payments during the next four fiscal years are as follows:

2001	$ 486,333
2002	$ 486,333
2003	$ 486,333
2004	$ 121,583

Note 9 - Subsequent Events

a) On January 5, 2001, the Corporation exercised its option under an agreement dated November 28, 2000 to satisfy its liability for the acquisition of geological and geophysical data from a non-related third party totalling $2,000,000 by way of issuing 1,600,000 flow through common shares of the Corporation.

b) On January 23, 2001, the Corporation announced the implementation of a Shareholder Rights Plan which is intended to provide shareholders adequate time to assess the merits of a takeover bid without undue pressure, to allow competing bids to emerge, and to allow the Board of Directors of the Corporation time to consider alternatives to enable shareholders to maximize the value of their shares. In the event that a bid, other than a permitted bid, is made, shareholders become entitled to exercise rights to acquire common shares of the Corporation at 50 percent of market value.

Note 10 - Corporation Name Change

Pursuant to a special resolution of the shareholders dated June 30, 2000, the Corporation amended its articles of incorporation under Section 167(1) of the Business Corporations Act (Alberta) to change its name from Prize Energy Inc. to Canadian Superior Energy Inc.

Management Team

Don W. Axford, B.Sc., Geology and Physics – Chairman of the Board

Chairman of the Board of Directors of Canadian Superior Energy Inc.; Mr. Axford has had a long distinguished career with Mobil Oil Canada Ltd. in Calgary and Mobil Oil Corporation in New York. Mr. Axford was Vice President of Exploration for Mobil Oil Canada and was responsible for bringing Mobil Oil into Atlantic Canada. He is accredited in the industry with having found several world-class discoveries including Sable Island and Hibernia. Mr. Axford is a past director of the Canada–Nova Scotia Offshore Petroleum Board.

Greg Noval, B.Comm., B.A. (Econ.), LLB – President and Chief Executive Officer

President and Chief Executive Officer of Canadian Superior Energy Inc.; Mr. Noval has been a director of the Corporation since May 1996. Mr. Noval is the founder of Canadian 88 Energy Corp. one of western Canada's most successful and aggressive foothills explorers. Mr. Noval founded Canadian 88 with $200,000 of seed capital and built it up into a three-quarters of a billion dollar company over the last 10 years. Mr. Noval is the past President and Chief Executive Officer of the company and he continues to play an active role in the affairs of Canadian 88 as its second largest individual shareholder and as a director and member of the Executive Committee. Mr. Noval successfully positioned Canadian 88 into major gas prone areas of the Alberta foothills maintaining a high working interest and control of facilities. His vision led to the creation of one of western Canada's premier intermediate sized oil and gas companies with an exciting opportunity base offshore Nova Scotia where he positioned Canadian 88 as one of the largest landholders off the Scotian Shelf and shot the first deepwater three dimensional (3-D) seismic program. Having recognized the world-class potential of the Scotian Shelf at Canadian 88, he created Canadian Superior Energy Inc. as a spin-out of Canadian 88 through a special dividend of Canadian 88 to concentrate purely on capturing the tremendous oil and gas opportunities present in the basin.

Robert A. Pilling, B.Comm., C.G.A. – Vice President

Vice President and Director of Canadian Superior Energy Inc.; Mr. Pilling has been a director of the Corporation since May 1996. Prior to joining Canadian Superior Energy Inc. in July 2000, he was Vice President, Administration of Canadian 88 Energy Corp. Mr. Pilling was involved with Canadian 88 in various financial and administrative roles since the Corporation's inception. Mr. Pilling is actively working towards the goal of increasing the liquidity of shareholders. Mr. Pilling is responsible for the day to day administration of the affairs of the Company.

Richard Watkins – Vice President, Corporate Development

Vice President, Corporate Development at Canadian Superior Energy Inc.; Prior to joining Canadian Superior, Mr. Watkins was Managing Director of Energy Advisors Ltd., a private energy consulting firm. Mr. Watkins has over 15 years experience in Canadian and U.S. project origination and financings and has participated in the structuring and completion of over $1 billion in energy related corporate and asset transactions.

Paul Moller, B.Sc., Geology and Physics – General Manager

General Manager of Canadian Superior Energy Inc.; Mr. Moller has been involved in management and technical capacities for over 25 years. He has been responsible for successful exploration and development programs and material acquisitions and dispositions of major assets. Mr. Moller has held senior management positions since 1979 in large and intermediate oil and gas companies, including Anschutz Corporation. Mr. Moller is in charge of coordinating Canadian Superior's exploration and operations teams.

Daniel C. MacDonald, B.A. in Business Administration (Finance) – Land Manager

Land Manager of Canadian Superior Energy Inc.; Mr. MacDonald has been involved in the oil and gas industry for over 15 years. Prior to joining Canadian Superior, he was Vice President, Land of a successful private company and was formerly Vice President, Land of Canadian 88 Energy Corp. At Canadian 88, he was involved with the strategic acquisition of over one million gross and net acres of undeveloped land used to fuel the exceptional growth of the company and position the company into the high impact potential of the Alberta foothills. Mr. MacDonald is responsible for Canadian Superior's overall land administration and acquisitions.

Gerold Fong, B.Sc. Geophysics – East Coast Exploration Manager

East Coast Exploration Manager at Canadian Superior Energy Inc.; Mr. Fong is a seasoned explorationist with 18 years of international and frontier experience. Mr. Fong has worked on a diverse number of exploration and development projects on almost every continent in the world. His international experience allows him to draw on information from analogous play types found offshore Africa and South America. His strength in regional basin analysis will be a core contributor to shaping Canadian Superior's activities on the Scotian Shelf. Mr. Fong's involvement in the initial Canadian 88 Energy evaluation of the Scotian Shelf makes him a valuable expert on the Canadian Superior team.

David Bredy, B.Sc. Geophysics – Western Canadian Exploration Manager

Western Canadian Exploration Manager; Mr. Bredy has been involved in oil and gas exploration for the past 18 years, most recently as Vice President, Exploration for Big Sky Resources, a successful private oil and gas company. Prior to that, he was employed at Renaissance Energy for 10 years, as Chief Geophysicist, where he was involved with in excess of 2000 drilling locations. Mr. Bredy's extensive experience in the Western Canadian Sedimentary Basin will allow him to provide the direction necessary to significantly grow Canadian Superior's production and reserves in Western Canada.

Rowan Gorilla III
photo courtesy of Rowan Companies Inc.

Corporate Information

Directors:

DONALD W. AXFORD, *B.Sc. Geology*
Chairman of the Board

GREG NOVAL, *B.Comm., B.A. (Econ.), LLB*
President and Chief Executive Officer

ROBERT PILLING, *B.Comm., C.G.A.*
Vice President

CHARLES DALLAS
Director

T. J. (JAKE) HARP, *B.Sc. Pet. Eng., P.Geoph.*
Director

FRED PURICH
Director

Officers and Key Personnel:

RICHARD WATKINS, *Vice President, Corporate Development*

PAUL MOLLER, *B.Sc., Geology and Physics – General Manager*

DANIEL C. MACDONALD, *B.A. in Business Administration (Finance) – Land Manager*

GEROLD FONG, *B.Sc. Geophysics – East Coast Exploration Manager*

DAVID BREDY, *B.Sc. Geophysics – Western Canadian Exploration Manager*

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